Report

of the

Examination of

North American Insurance Company

Phoenix, Arizona

As of December 31, 2002

TABLE OF CONTENTS

Page

State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, *Governor*
Jorge Gomez, *Commissioner*

Wisconsin.gov

125 South Webster Street • P.O. Box 7873
Madison, Wisconsin 53707-7873
Phone: (608) 266-3585 • Fax: (608) 266-9935
E-Mail: information@oci.state.wi.us
Web Address: oci.wi.gov

February 9, 2004

Honorable Jorge Gomez
Commissioner of Insurance
State of Wisconsin
125 South Webster Street
Madison, Wisconsin 53702

Honorable Kevin McCarty
Chairman, Financial Condition (E)
Committee, NAIC
Director, Office of Insurance Regulation
State of Florida
200 East Gaines Street
Tallahassee, Florida 32399-0327

Honorable Sally McCarty
Secretary, Midwestern Zone, NAIC
Commissioner of Insurance
State of Indiana
311 West Washington Street, Suite 300
Indianapolis, Indiana 46204-2787

Honorable John W. Oxendine
Secretary, Southeastern Zone, NAIC
Commissioner of Insurance
State of Georgia
2 Martin Luther King, Jr. Drive
Floyd Memorial Bldg., 704 West Tower
Atlanta, Georgia 30334

Commissioners:

In accordance with your instructions, a compliance examination has been made of the affairs and financial condition of:

NORTH AMERICAN INSURANCE COMPANY
PHOENIX, ARIZONA

and this report is respectfully submitted.

I. INTRODUCTION

The previous examination of North American Insurance Company was conducted in 2000 as of December 31, 1999. The current examination covered the intervening period ending December 31, 2002, and included a review of such 2003 transactions as deemed necessary to complete the examination.

The examination consisted of a review of all major phases of the company's operations, and included the following areas:

History
Management and Control
Corporate Records
Conflict of Interest
Fidelity Bonds and Other Insurance
Employees' Welfare and Pension Plans

Territory and Plan of Operations
Affiliated Companies
Growth of Company
Reinsurance
Financial Statements
Accounts and Records
Data Processing

Emphasis was placed on the audit of those areas of the company's operations accorded a high priority by the examiner-in-charge when planning the examination. Special attention was given to the action taken by the company to satisfy the recommendations and comments made in the previous examination report.

The section of this report titled "Summary of Examination Results" contains comments and elaboration on those areas where adverse findings were noted or where unusual situations existed. Comments on the remaining areas of the company's operations are contained in the examination work papers.

The company is annually audited by an independent public accounting firm as prescribed by s. Ins 50.05, Wis. Adm. Code. An integral part of this compliance examination was the review of the independent accountant's work papers. Based on the results of the review of these work papers, alternative or additional examination steps deemed necessary for the completion of this examination were performed. The examination work papers contain documentation with respect to the alternative or additional examination steps performed during the course of the examination.

Independent Actuary's Review

Independent actuaries were engaged under a contract with the Office of the Commissioner of Insurance (OCI). They reviewed the adequacy of aggregate life and accident and health reserves, dividends to policyholders, asset adequacy analysis, and deferred and uncollected premiums for life insurance. The results of their work were reported to the examiner-in-charge. As deemed appropriate, reference is made in this report to the actuaries' conclusion.

II. HISTORY AND PLAN OF OPERATION

North American Insurance Company (NAI or the company), was incorporated as a stock company under the laws of Wisconsin on September 25, 1962. Its original name was Reliable Casualty Company. The Reliable Casualty Company received its certificate of authority and began operations on December 31, 1965. In 1968, the company changed its name to the Reliable Life and Casualty Company (RLCC).

On August 31, 1981, the Dane County Circuit Court on petition of the Office of the Commissioner of Insurance (OCI) of the state of Wisconsin issued an order of rehabilitation on RLCC. A separate account was created into which substantially all of RLCC's assets and liabilities were transferred. The Dane County Circuit Court placed this separate account in liquidation on October 1, 1981.

On September 16, 1986, North American Group, Ltd. (NAGL), formerly known as the Reliable Investors Corporation, the parent of RLCC, applied for reinstatement of the company's certificate of authority. An amended application for reinstatement was submitted on March 6, 1987.

The Dane County Circuit Court released RLCC from rehabilitation on August 13, 1987. NAGL provided approximately $4,000,000 of recapitalization for the company. The company's name was changed to the one presently used. NAI commenced the writing of business in September of 1987. On September 21, 1990, North American Insurance Company was purchased by a newly formed holding company, Encore Financial Inc.

In November 1997, Oxford Life Insurance Company (Oxford), a wholly owned subsidiary of AMERCO, purchased all of Encore Financial's capital stock. On December 31, 1997, Oxford contributed $2,400,000 through the purchase of a surplus note from NAI, at a rate of 8%. The note provided for interest only payments starting July 1, 1998, and principal payments of $350,000, plus interest starting July 1, 1999, all subject to the prior approval of OCI. Descriptions of Oxford Life and AMERCO can be found in the Affiliated Companies section of this report.

The company's property and casualty subsidiary, North American Fire and Casualty, was sold to an affiliate in 1998.

The company writes direct premium in the following states:

Michigan	$5,161,038	54.9%
Louisiana	2,478,183	26.4
Oklahoma	777,963	8.3
Wisconsin	506,895	5.4
All others	468,776	5.0
	$9,392,855	100.0%

As of December 31, 2002, the company was licensed in the following states:

Alabama	Colorado	District of Columbia
Illinois	Indiana	Kansas
Louisiana	Maryland	Michigan
Minnesota	Missouri	New Mexico
Ohio	Oklahoma	Oregon
Pennsylvania	South Carolina	Texas
Wisconsin		

The company has a license pending in North Dakota.

NAI primarily concentrates on individual and group credit insurance, and Medicare supplement insurance.

Credit life and credit disability policies are marketed at the time of a financed transaction in the Midwest and South. In the Midwest, this business is primarily marketed through credit unions, automobile dealers and finance companies. In the South, the credit business is written through independent finance companies.

In the South, NAI utilizes a type of agency agreement called a "retro" agreement. Under this type of agreement, the producer/agent of the business receives a large upfront commission, a portion of which could be returned to NAI depending upon the experience of the business sold. This type of agreement is used in three of the Southern states, where credit insurance is sold. As of December 31, 2002, direct business produced under these agreements accounted for approximately 73% (in aggregate) of direct writings from those states and approximately 17% of total writings.

The following chart is a summary of the net insurance premiums written by the company in 2002. The growth of the company is discussed in the Financial Data section of this report.

Line of Business	**Direct Premium**	**Reinsurance Assumed**	**Reinsurance Ceded**	**Net Premium**
Ordinary life	$62,569		$19,147	$43,422
Credit life	9,330,286	$33,798	8,431,390	932,694
Credit accident & health	10,369,731	73,976	9,407,730	1,035,977
Accident & Health Group	1,210,459			1,210,459
Accident & Health Other	11,198,079	(1,449,069)	1,804,800	7,944,211
Total All Lines	$32,171,124	$(1,341,295)	$19,663,067	$11,166,763

III. MANAGEMENT AND CONTROL

Board of Directors

The board of directors consists of four members who are elected annually. Officers are elected at the board's annual meeting. Members of the company's board of directors may also be members of other boards of directors in the holding company group. The directors receive no compensation specific to their service on the board because all are employees of the AMERCO group.

Currently, the board of directors consists of the following persons:

Name and Residence	Principal Occupation	Term Expires
Mark A. Haydukovich Phoenix, AZ	President – Oxford Life	2004
Don C. Smith Phoenix, AZ	Vice President – Oxford Life	2004
Jason A. Berg Phoenix, WI	Secretary, Treasurer, Vice President – Oxford Life	2004
Rocky D. Wardrip Reno, NV	Assistant Treasurer - AMERCO	2004

Officers of the Company

The officers appointed by the board of directors and serving at the time of this examination are listed below. Listed compensation consists of 2002 gross earnings for services rendered to the AMERCO group as a whole.

Name	Office	2002 Compensation
Mark A. Haydukovich	President	$166,163
Jason A. Berg	Vice President, Secretary, Treasurer	98,462
Don C. Smith	Vice President	103,200
Edward F. Donagan	Vice President	80,741
Willie D. Rhodus	Vice President	58,462

Committees of the Board

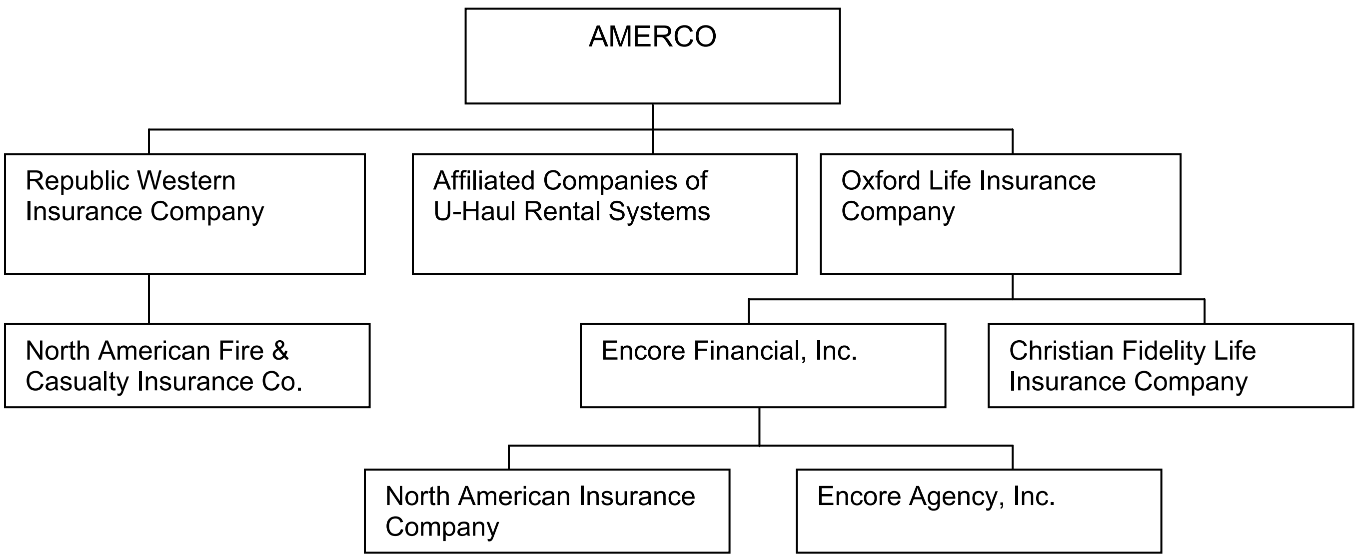
The company's bylaws allow for the formation of certain committees by the board of directors. The company currently has only an investment committee and members receive no compensation for their service. Below are the listed members of the Investment Committee:

Investment Committee
Mark A. Haydukovich, Chairman
Jason A. Berg
Sam Briggs
Kristin Spears
Rocky D. Wardrip

IV. AFFILIATED COMPANIES

North American Insurance Company is a member of a holding company system. The organizational chart below depicts the relationships among the affiliates in the group. A brief description of the significant affiliates of North American Insurance Company follows the organizational chart.

Organizational Chart
As of December 31, 2002



AMERCO

AMERCO, a Nevada corporation, is the holding company for U-Haul International, Inc. (U-Haul). U-Haul was founded in 1945 under the name "U-Haul Trailer Rental Company". From 1945-1974, U-Haul rented trailers and, starting in 1959, trucks on a one-way and in-town basis exclusively through independent dealers. Since 1974, U-Haul has developed a network of company managed rental centers (U-Haul Centers) through which U-Haul also rents its trucks and trailers and provides related products and services.

As of March 31, 2003, AMERCO's consolidated financial statements, as reported in its 10-K Securities and Exchange Commission filing, reported assets of $3.80 billion, liabilities of $3.48 billion, and stockholders equity of $327 million. Operations, as of March 31, 2003, produced a reported net loss of $25 million on revenues of $2.1 billion. See the section of this report titled “Subsequent Events” for additional information related to this company.

Republic Western Insurance Company

Republic Western Insurance Company (Republic) is a property and casualty insurance company domiciled in Arizona. Republic originates and reinsures property and casualty products for various market participants, including independent third parties, U-Haul’s customers, independent dealers, and AMERCO. In April 2003, Republic announced that in connection with AMERCO’s overall restructuring efforts, in order to reduce costs and to build upon its core strengths, Republic is exiting the non-U-Haul related lines of business.

On May 20, 2003, Republic consented to an Order for Supervision issued by the Arizona Department of Insurance. The Arizona Department of Insurance determined that Republic’s level of Risk Based Capital (RBC) allowed for regulatory control.

As of December 31, 2002, Republic’s audited statutory financial statements reported admitted assets of $418 million, liabilities of $353 million, and surplus of $65 million. Operations for 2002 produced reported net income of $4.1 million on total earned premiums of $155 million.

Oxford Life Insurance Company

Oxford Life Insurance Company (Oxford) is a life insurance company domiciled in Arizona. Oxford is licensed in the District of Columbia and every state in the United States except for Vermont. Oxford directly writes and reinsures annuities, credit life and disability; single premium whole life, group life and disability coverage, and Medicare supplement insurance. Oxford also administers the self-insured employee health and dental plans for AMERCO.

Oxford owns 100% of the issued and outstanding share of common stock of Encore Financial, Inc. (Encore), and its subsidiaries. Encore’s primary subsidiary is North American Insurance Company. As of December 31, 2002, Oxford’s audited consolidated statutory basis financial statement reported admitted assets of $787 million, liabilities of $748 million, and surplus of $39 million. Operations for 2002 produced a reported net loss of $11.6 million on total premiums and other revenues of $273 million.

Christian Fidelity Life Insurance Company

On November 13, 2000, Oxford acquired all of the issued and outstanding shares of Christian Fidelity Life Insurance Company (Christian Fidelity) in exchange of cash for stock. Christian is a Texas-based insurance company specializing in providing supplemental health insurance and is licensed in 31 states. As of December 31, 2002, Christian Fidelity's audited statutory financial statements reported admitted assets of $79 million, liabilities of $62 million, and surplus of $17 million. Operations for 2002 produced reported net income of $3 million on total premiums and other revenue of $61 million.

Encore Financial, Inc.

Encore Financial Inc. acts solely as the holding company of NAI and its affiliates. As of December 31, 2002, Encore Financial, Inc.'s unaudited financial statements reported assets of $12,768,042, liabilities of $23,170, and stockholders equity of $12,768,042. Operations for 2002 produced reported net income of $2,784,590.

Encore Agency Inc.

Encore Agency Inc. (EAI), is a Louisiana corporation and acts as an insurance broker for credit insurance in the southern United States for the North American Fire & Casualty Insurance Company (NAFCIC). As of December 31, 2002, the EAI's unaudited financial statements reported assets of $84,095, liabilities of $1,548,952, and stockholder's equity of $(1,464,857). Operations for 2002 produced a reported net loss of $252,182.

Affiliated Agreements

Effective January 1, 1998, Oxford and NAI entered into a management services agreement. Under the terms of this agreement Oxford provides payroll, accounting and actuarial services. Oxford's executive officers are also the executive officers of the company. NAI pays Oxford $50,000 per month for these services.

Effective January 1, 2001, Oxford and NAI entered into an Investment Services agreement. Under the terms of this agreement, Oxford provides NAI with investment services including investing of funds, establishing custodial relationships, and providing monthly reports of investment activity. NAI pays $7,000 quarterly for these services.

Effective January 1, 1999, NAI entered into a policy administration agreement with EAI. Under the terms of this agreement NAI provides policy administrative services including customer service, premium administration, claims administration, and commission administration. NAI receives $5,000 a month for these services under the agreement, as amended on April 1, 2002.

Effective January 1, 2000, NAI entered into a policy administration agreement with Oxford. Under the terms of this agreement NAI provides policy administrative services including customer service, premium administration, claims administration, and commission administration. NAI receives 7% of net written premium administered under the agreement.

Effective April 1, 2001, NAI entered into a policy administration agreement with Christian Fidelity. Under the terms of this agreement, NAI provides policy administrative services including customer service, premium administration, claims administration, and commission administration. NAI receives 7% of net written premium administered under the agreement.

Effective June 1, 2001, NAI entered into a marketing services agreement with Christian Fidelity. NAI is reimbursed $10,000 a year for these services.

V. REINSURANCE

The company's reinsurance portfolio and strategy are described below. A list of the companies that have a significant amount of reinsurance in force at the time of the examination follows. The contracts contained proper insolvency provisions.

The company's ceding reinsurance program is designed to manage surplus strain from its credit life and credit disability business by ceding up to 90% of business written after January 1, 1998. The company also cedes 75% of its individual ordinary life (Pre-need business) assumed from Madison National Life Insurance Company in 1993. This results in a cession of approximately 48% of its ordinary life business, as a whole.

Ceding Contracts

Credit Life and Credit Disability Reinsurance

The company has two automatic quota share reinsurance treaties with its intermediate parent Oxford covering credit life and disability business issued by the company and administered at the home office (Midwest business) and at the Louisiana office (Southern Business). Under the Southern and Midwest business treaty, Oxford provides 90% quota share coverage up to a $75,000 maximum per life credit risk and $1,000 per month credit disability risk. Recoveries under the Southern contract are net of recovery on retro claims.

The company also had an automatic coinsurance quota-share treaty with Lincoln National Reassurance Company of Fort Wayne, Indiana (Lincoln) covering the company's Midwest business through 2001. Quota share percentages are based on the certificate issue dates. In 2002, the company's quota share percentage was dropped to 0%. All reinsurance which had been placed in effect prior to the termination of the agreement remains in effect in accordance with the agreement.

Two retrocession agreements are associated with the Lincoln treaty. Lincoln of Fort Wayne retrocedes 100% of the business to its Bermuda affiliate who then in turn retrocedes 100% to Oxford Life.

Life Insurance

The company has a quota share reinsurance treaty with United Liberty Life Insurance Company (United Liberty), an unauthorized reinsurer, covering a block of pre-need life insurance assumed from Madison National Life under a 1993 assumption agreement. United Liberty is providing 75% coverage, subject to a maximum of $25,000 on any one life. This agreement was terminated with respect to new business, effective November 1, 1996.

VI. FINANCIAL DATA

The following financial statements reflect the financial condition of the company as reported to the Commissioner of Insurance in the December 31, 2002, annual statement (as amended). Also included in this section are schedules which reflect the growth of the company, NAIC Insurance Regulatory Information System (IRIS) ratio results for the period under examination, and the compulsory and security surplus calculation. Adjustments made as a result of the examination, if any, are noted at the end of this section in the area captioned "Reconciliation of Surplus per Examination."

North American Insurance Company
Assets
As of December 31, 2002

	Assets	Nonadmitted Assets	Net Admitted Assets
Bonds	$17,870,216	$ 0	$17,870,216
Common stocks	62,782		62,782
Policy loans	8,960		8,960
Cash	874,300		874,300
Short-term investments	4,144,347		4,144,347
Other invested assets	800,000	800,000	
Receivable for securities	21,856		21,856
Reinsurance ceded:			
Other amounts receivable under reinsurance contracts	1,144,420		1,144,420
Electronic data processing equipment and software	69,319	30,489	38,830
Federal and foreign income tax recoverable and interest thereon	1,502,581		1,502,581
Guaranty funds receivable or on deposit	29,374		29,374
Life insurance premiums and annuity considerations deferred and uncollected on in force business	5,121		5,121
Accident and health premiums due and unpaid	79,096		79,096
Investment income due and accrued	290,430		290,430
Receivable from parent, subsidiaries and affiliates	2,621,144	1,433,933	1,187,211
Amounts due from agents	108,295	108,295	
Other assets nonadmitted:			
Furniture and equipment	25,734	25,734	
Loans on personal security, endorsed or not	3,769	3,769	
Write-ins for other than invested assets:			
Other Receivables	44,518		44,518
Premium Tax Receivables	92,400		92,400
Total Assets	$29,798,662	$2,402,220	$27,396,442

North American Insurance Company
Liabilities, Surplus, and Other Funds
As of December 31, 2002

Aggregate reserve for life policies and contracts		$ 8,059,179
Aggregate reserve for accident and health contracts		4,126,440
Liability for deposit-type contracts		2,905
Contract claims:		
Life		68,371
Accident and health		2,541,508
Premiums and annuity considerations received in advance		340,514
Contract liabilities not included elsewhere:		
Interest maintenance reserve		133,829
Commissions to agents due or accrued		116,566
General expenses due or accrued		69,703
Taxes, licenses, and fees due or accrued, excluding federal income taxes		514,915
Federal and foreign income taxes		447,961
Amounts withheld or retained by company as agent or trustee		100
Remittances and items not allocated		296,243
Miscellaneous liabilities:		
Asset valuation reserve		39,413
Write-ins for liabilities:		
Amounts due reinsurer		97,707
Total Liabilities		16,855,354
Common capital stock	$1,747,800	
Gross paid in and contributed surplus	5,222,383	
Unassigned funds (surplus)	3,570,905	
Total Capital and Surplus		10,541,088
Total Liabilities, Capital and Surplus		$27,396,442

North American Insurance Company
Summary of Operations
For the Year 2002

Premiums and annuity considerations for life and accident and health contracts		$11,292,496
Net investment income		1,401,603
Amortization of interest maintenance reserve		38,100
Commissions and expense allowances on reinsurance ceded		13,855,003
Miscellaneous income:		
Administrative fees		10,240,456
Total income items		36,827,658
Death benefits	$850,885	
Annuity benefits	95,160	
Disability benefits and benefits under accident and health contracts	10,411,224	
Surrender benefits and withdrawals for life contracts	158,934	
Interest and adjustments on contract or deposit-type contract funds	(725)	
Increase in aggregate reserves for life and accident and health contracts	(2,461,732)	
Subtotal	9,053,746	
Commissions on premiums, annuity considerations, and deposit-type contract funds (direct business only)	15,203,799	
Commissions and expense allowances on reinsurance assumed	53,899	
General insurance expenses	7,015,418	
Insurance taxes, licenses, and fees excluding federal income taxes	617,507	
Increase in loading on deferred and uncollected premiums	(1,251)	
Total deductions		31,943,118
Net gain (loss) from operations after dividends to policyholders and before federal income taxes		4,884,541
Federal income taxes incurred (excluding tax on capital gains)		1,524,667
Net gain (loss) from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses		3,359,874
Net realized capital gains or (losses), less capital gains tax		(241,539)
Net Income		$ 3,118,335

North American Insurance Company
Cash Flow
For the Year 2002

Premiums and annuity considerations for life and accident and health contracts			$11,166,761
Net investment income			1,499,072
Commissions and expense allowances on reinsurance ceded			13,855,003
Write-ins for miscellaneous income:			
Administrative fees			10,253,731
Total			36,774,567
Death benefits	$902,381		
Annuity benefits	95,160		
Disability benefits and benefits under accident and health contracts	13,871,215		
Surrender benefits and withdrawals for life contracts	158,934		
Subtotal		$15,027,690	
Commissions on premiums, annuity considerations, and deposit type contract funds	15,087,232		
Commissions and expense allowances on reinsurance assumed	53,898		
General insurance expenses	7,449,009		
Insurance taxes, licenses and fees, excluding federal income taxes	1,176,340		
Subtotal		23,766,479	
Federal income taxes (excluding tax on capital gains)		932,605	
Total deductions			39,726,774
Net cash from operations			(2,952,207)
Proceeds from investments sold, matured, or repaid:			
Bonds	10,560,134		
Other invested assets	62,775		
Miscellaneous proceeds	620,000		
Total		11,242,909	
Less: Cost of investments acquired (long-term only):			
Bonds	4,123,881		
Stocks	62,775		
Other invested assets	800,000		
Miscellaneous applications	586,289		
Total investments acquired		5,572,945	
Net increase (or decrease) in policy loans and premium notes		2,041	
Net cash from investments			5,667,923

Cash provided from financing and miscellaneous sources:			
Surplus notes, capital and surplus paid in	(1,350,000)		
Other cash provided	6,092,889		
Total		4,742,889	
Cash applied for financing and miscellaneous uses:			
Other applications	6,978,712		
Total		6,978,712	
Net cash from financing and miscellaneous sources			(2,235,823)
Reconciliation			
Net change in cash and short-term investments			479,893
Cash and short-term investments, December 31, 2001			4,538,756
Cash and short-term investments, December 31, 2002			$ 5,018,649

North American Insurance Company
Compulsory and Security Surplus Calculation
December 31, 2002

Assets			$27,396,442
Less liabilities			16,855,354
Adjusted surplus			10,541,088
Annual premium:			
Individual life and health	$7,806,654		
Factor	15%		
Total		$1,170,998	
Group life and health	3,379,485		
Factor	10%		
Total		337,949	
Greater of 7.5% of consideration or 2% of reserves for annuities and deposit administration funds		14,606	
Compulsory surplus (subject to a $2,000,000 minimum)			2,000,000
Compulsory surplus excess or (deficit)			$ 8,541,088
Adjusted surplus (from above)			$10,541,088
Security surplus: (140% of compulsory surplus, factor reduced 1% for each $33 million in premium written in excess of $10 million, with a minimum of 110%)			2,800,000
Security surplus excess or (deficit)			$ 7,741,088

North American Insurance Company
Reconciliation and Analysis of Surplus
For the Three-Year Period Ending December 31, 2002

The following schedule is a reconciliation of total capital and surplus during the period under examination as reported by the company in its filed annual statements:

	2002	**2001**	**2000**
Capital and surplus, beginning of year	$11,562,427	$10,818,026	$12,050,214
Net income	3,118,335	(684,583)	42,807
Change in net unrealized capital gains or (losses)	(1,184,993)	716,683	(661,683)
Change in net deferred income tax	(368,271)	(180,525)	
Change in non-admitted assets and related items	(705,025)	(59,385)	20,590
Change in reserve on account of change in valuation bases		67,758	
Change in asset valuation reserve	(33,286)	(1,607)	66,097
Change in treasury stock			
Change in surplus notes	(1,350,000)	(350,000)	(700,000)
Cumulative effect of changes in accounting principles		1,236,060	
Write-ins for gains and (losses) in surplus: Prior Period Adjustment	(498,099)		
Capital and surplus, end of year	$10,541,088	$11,562,427	$10,818,025

North American Insurance Company
Insurance Regulatory Information System
For the Three-Year Period Ending December 31, 2002

The company's NAIC Insurance Regulatory Information System (IRIS) results for the period under examination are summarized below. Unusual IRIS results are denoted with asterisks and discussed below the table.

	Ratio	**2002**	**2001**	**2000**
#1	Net change in capital & surplus	(9)%	7%	(10)%
#2	Gross change capital & surplus	(9)	7	(10)*
#3	Net income to total income	9	(1)*	0*
#4	Comm and Exp to Prem and Deposits		discontinued	
#5	Adequacy of investment income	365	445	401

#6	Non-admitted to admitted assets	9	2	2
#7	Total real estate & mortgage loans to cash & invested assets	0	0	0
#8	Total affl investments to capital & surplus	19	17	23
#9	Surplus relief	131*	110*	156*
#10	Change in premium	(66)*	(5)	53*
#11	Change in product mix	1.7	1.0	0.0
#12	Change in asset mix	1.0	2.0	0.0
#13	Change in reserving ratio	36*	245*	(99)*

IRIS ratio number 2, gross change in capital and surplus, was exceptional in 2000. This exception resulted from a significant decrease in surplus, the majority of which was attributable to the company retiring $700,000 of its surplus notes during the year. During 2002, with the consent of this office, the company retired its surplus note with a final payment of $1,350,000.

The exceptional IRIS ratio results for number 3, net income to total income, in 2000 and 2001 reflects net losses reported in 2001 and relatively small net income in 2000 in comparison to the total income reported by the company.

IRIS ratio number 9, surplus relief, was exceptional for each of the last three years. This is due to company's reliance on reinsurance to manage surplus strain from its credit and group health business. Surplus relief represents the company's commission equity from certain quota share reinsurance agreements. For additional information related to the company's reinsurance, see the section of this report titled "Reinsurance".

IRIS ratio number 10, change in premium, was exceptional in 2000 and 2002 due to changes in the company's reinsurance program, the latest of which included the transfer of two reinsured blocks of Medicare supplement business, previously assumed by the company, to Oxford, its intermediate parent. For additional information related to this transfer, see the section of this report titled "Summary of Current Examination Results".

IRIS ratio number 13, change in reserving ratio, was exceptional for all of the years under review. This ratio was exceptional because of the company's minimal level of life business.

Growth of North American Insurance Company

Year	Admitted Assets	Liabilities	Surplus
2002	$27,396,442	$16,855,354	$10,541,088
2001	40,449,542	28,887,118	11,562,426
2000	38,310,145	27,492,120	10,818,025
1999	38,727,611	26,677,397	12,050,214

Life Insurance In Force (in thousands)

Year	Gross Direct And Assumed	Ceded	Net
2002	$1,147,329	$1,044,013	$103,316
2001	999,092	924,092	74,463
2000	1,063,414	922,499	140,915
1999	1,058,106	931,595	126,511

Accident and Health

Year	Net Premiums Earned	Net Losses Incurred	Commissions Incurred	Other Expenses Incurred	Combine Loss and Expense Ratio
2002	$12,073,344	$10,404,181	$1,692,698	$4,570,737	138.05%
2001	31,309,391	27,411,267	4,125,543	10,663,038	134.78%
2000	28,682,100	23,906,009	3,806,632	11,529,920	136.82%
1999	17,996,542	12,704,696	262,418	9,030,535	122.23%

The tables above reflect management's focus on the business of credit life and credit disability and Medicare supplement since Oxford acquired ownership in 1997. During 2002, the company transferred two blocks of Medicare supplement business to its intermediate parent Oxford. The significant decreases to premiums earned, admitted assets, and liabilities are attributable to this transfer. For additional information related to this transfer, see the section of this report titled "Summary of Current Examination Results".

Reconciliation of Surplus per Examination

The following schedule is a reconciliation of surplus between that reported by the company and as determined by this examination:

	Increase	Decrease	
Surplus December 31, 2002, per annual statement			$10,541,088
Cash		$710,616	
Other amounts receivable under reinsurance contracts		63,907	
Net deferred tax asset		829,625	
Receivable from parent, subsidiaries and affiliates		202,015	
General expenses due or accrued		238,641	
Taxes, licenses, and fees due or accrued, excluding federal income taxes	$452,000		
Net increase or (decrease)	$452,000	$2,044,804	(1,592,804)
Surplus December 31, 2002, per examination			$8,948,284

Examination Reclassifications

	Debit	Credit
Remittances and items not allocated	$175,976	
Payable to parent, subsidiaries and affiliates		$ 175,976
Total reclassifications	$175,976	$175,976

VII. SUMMARY OF EXAMINATION RESULTS

Compliance with Prior Examination Report Recommendations

There were 23 specific comments and recommendations in the previous examination report. Comments and recommendations contained in the last examination report and actions taken by the company are as follows:

1. Management & Control—It is recommended that the company amend its Articles of Incorporation to reflect the actual registered agent and registered office.

   Action—Noncompliance, see comments in the summary of current examination results.

2. Affiliated Agreements—It is recommended that company include the agreement with Encore Agency, Inc., as part of the annual holding company report in accordance with s. Ins 40.03, Wis. Adm. Code.

   Action—Compliance.

3. Investment—It is again recommended that the company hold its securities under custodial agreements with the necessary safeguards and controls listed in the NAIC Examiners Handbook. Provisions shall include, but not be limited to:

   1. That the bank or trust company as custodian is obligated to indemnify the insurance company for any loss of securities of the insurance company in the bank or trust company's custody occasioned by the negligence or dishonesty of the bank or trust company's officers or employees, or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction;

   2. That in the event that there is a loss of the securities for which the bank or trust company is obligated to indemnify the insurance company, the securities shall be promptly replaced or the value of the securities and the value of any loss of rights or privileges resulting from said loss of securities shall be promptly replaced.

   Action—Compliance.

4. Cash – Outstanding Checks—It is recommended that the company establish procedures that will ensure that when checks clear the bank they are removed from the system in a reasonable amount of time.

   Action—Noncompliance, see comments in the summary of current examination results.

5. Cash – Outstanding Checks—It is again recommended that the company complies with s. 177, Wis. Stat., in regards to the treatment of unclaimed property and files the required unclaimed property reports with the State Treasurer.

   Action—Noncompliance, see comments in the summary of current examination results.

6. Cash – Outstanding Checks—It is also recommended that the company establish procedures for following up on stale checks with the payees and then either reissues them or transfers the balances into a liability account for reporting to the appropriate state.

   Action—Noncompliance, see comments in the summary of current examination results.

7. Other Receivable—It is recommended that the company nonadmit this other receivable until it can be verified as collectable.

   Action—Compliance.

8. EDP Equipment—It is recommended that the company admit only operating software, in accordance with the Accounting Practices and Procedures Manual for Life and Accident and Health Companies.

   Action—Compliance.

9. Accounts and Records—It is recommended that the company settle accounts within a reasonable amount of time.

   Action—Noncompliance, see comments in the summary of current examination results.]

10. Accounts and Records—It is recommended that the company improve its procedures regarding the maintenance of policy/certificate files to prevent files from being lost.

    Action—Compliance.

11. Prior Period Adjustment—It is recommended that the company properly report accounting changes in accordance with the NAIC's Annual Statement Instructions – Life, Accident and Health.

    Action—Compliance.

12. Remittance and Items no Allocated—It is recommended that the company report all affiliated transactions in accordance with the NAIC's Annual Statement Instructions – Life and Health.

    Action—Noncompliance, see comments in the summary of current examination results.

13. Reinsurance—It is recommended that the company amend the administration agreement with Citizens Security Life Insurance Company to reflect the actual terms.

    Action—Compliance.

14. Reinsurance—It is recommended that the company report reserve credits taken on Schedule S in accordance with the NAIC Annual Statement Instructions – Life, Accident, and Health.

    Action—Compliance.

15. Reinsurance—It is recommended that the company establish procedures for documenting their reinsurance program.

    Action—Noncompliance, see comments in the summary of current examination results.

16. Reinsurance—It is again recommended that the company execute its reinsurance contracts on a timely basis.

    Action—Compliance.

17. Electronic Data Processing - General and Application Controls—It is recommended that the company develops and institutes procedures for auditing of its Information Systems environment by external auditors.

    Action—Compliance.

18. Electronic Data Processing - General and Application Controls—It is recommended that the company develop, institute, and promulgate to all employees a formal security policy that covers both logical and physical access to company data.

    Action—Compliance.

19. Disaster Recovery—It is recommended that the company develops and institutes a formal Business Continuation/Disaster Recovery Plan for all company facilities.

    Action—Noncompliance, see comments in the summary of current examination results.

20. Loss Reserves—It is recommended that the company establish procedures for periodic review of detail loss reserve records.

    Action—Compliance.

21. Loss Reserves—It is recommended that the company maintain annual statement workpapers and detail reserve listings in a form that can be reproduced within a reasonable period of time, as required by s. Ins 6.80, Wis. Adm. Code.

    Action—Compliance.

22. Loss Reserves—It is recommended that the company be more diligent in reviewing and cross checking the liabilities reported in the annual statement exhibits.

    Action—Compliance.

23. Loss Reserves—It is recommended that the reserves for life policies be calculated and reported under the appropriate valuation standard.

    Action—Noncompliance, see comments in the summary of current examination results.

Summary of Current Examination Results

Management and Control

The previous examination recommended that the company amend its Articles of Incorporation to reflect its actual registered agent and registered office. Article V of these Second Restated Articles of Incorporation continues to name Mr. Robert R. Lehman as the registered agent and 150 East Gilman Street as the registered office. According to other information filed with the Commissioner, the registered agent is CT Corporation System, 44 East Mifflin Street, Madison, WI 53703. It is again recommended that the company amend its Articles of Incorporation to reflect the actual registered agent and registered office, and file any such amendment with the commissioner, pursuant to s. 611.29 (4), Wis. Stat.

On May 3, 2002, the company amended and restated its Bylaws to reflect current practices. The company failed to file this amendment with the commissioner 60 days after its adoption pursuant to s. 611.12 (4), Wis. Stat. In addition, both the previous and current Bylaws require the company to maintain a minimum of five directors. As noted in the section of this report titled “Management and Control”, the board currently consists of only four members. It is recommended that the company comply with its Bylaws or amend them to reflect current membership and/or practices, and file any future amendments of its Bylaws with the commissioner, pursuant to s. 611.12 (4), Wis. Stat.

Disaster Recovery

The prior examination noted that the company had taken major steps for disaster recovery backup; however, no formal Disaster Recovery Plan currently existed. During the period under examination, the company has completed several significant aspects of a business continuation/disaster recovery plan, but has yet to develop a comprehensive plan. It is again recommended that the company develop and institute a formal Business Continuation/Disaster Recovery Plan for all company facilities.

Fidelity Bond

The company has not protected itself for potential dishonest acts by employees with the purchase of any fidelity coverage. The suggested minimum amount of fidelity insurance under guidelines published by the NAIC in the Financial Condition Examiners' Handbook for a company of its size, on a stand-alone basis, ranges from $350,000 to $400,000. It is recommended that the company obtain fidelity bond coverage in at least the amount suggested by the guidelines of the NAIC.

Cash **$163,684**

The prior examination found the company's recording and monitoring of cash to be cumbersome and prone to errors that required extensive reconciliations. Deficiencies included failures by the company to clear checks that had already cleared the bank from its outstanding check listings in a timely manner, as included within the company's outstanding check listings were checks issued in September of 1992.

The current examination noted that the company's outstanding check listings continue to include checks issued by the company in September 1992. It is again recommended that the company establish procedures that will ensure that when checks clear the bank they are removed from the system in a reasonable amount of time.

The prior examination also resulted in a recommendation that the company comply with ch. 177, Wis. Stat., regarding unclaimed property filings. As noted above, the company continues to include within its reconciliations outstanding checks that may be escheatable due to the length of time before clearing. Due to the manual process required to clear these checks, the company is unable to identify which checks may be escheatable and which have already cleared the bank. It is again recommended that the company comply with ch. 177 Wis. Stat., regarding the treatment of unclaimed property and file the required unclaimed property reports with the State Treasurer. Furthermore, it is again recommended that the company establish procedures for following up on stale checks with payees and then either reissue them or transfer the balances into a liability account for reporting to the appropriate state.

The examination also noted certain items were netted within the cash accounts that do not meet the definition of cash and should be reported elsewhere. An example resulted from the company's method for recording credit disability and life premium written at the time information is received from its producers. In most instances, cash accompanies the information;

however, the company also allows several producers to settle balances on a monthly basis. Regardless of whether the cash accompanied the information, the company was creating entries as though all the cash had been collected, resulting in an overstatement of cash and an understatement of agents' balances. A reclassification for purposes of this examination is not deemed necessary since the net of these balances was not considered material. It is recommended that in future annual statements, the company exclude from the cash balance suspense items and other items that do not meet the definition of cash. Such items should be classified in the appropriate annual statement line.

In addition to improper netting and the stale checks noted above, the company also included items in its cash reconciliations that it was unable to substantiate. Although monthly reconciliations were being performed, discrepancies between the general ledger and the bank statements were not always investigated and resolved in a timely manner. Several accounts included reconciling items that had been carried forward since 1999. The examination made an adjustment decreasing the cash balance by $710,616 for reconciling items that the company was unable to substantiate. It is recommended that the company complete a thorough review of all bank reconciliations identifying and taking the necessary steps to clear reconciling items in a timely manner and nonadmit balances for which it is unable to substantiate that a future economic benefit exists. It is noted that during 2003, the company wrote off many of the reconciling items mentioned in this section of the report.

Assumed Reinsurance

During 1996, the company entered into two retrocession assumption agreements pertaining to Medicare supplement policies that were 100% reinsured by General & Cologne Life Reinsurance Company (General Cologne) and partially retroceded to the company. In a separate administration agreement, the company agreed to administer the block of business for General Cologne.

In March of 2002, the company and its affiliate, Oxford Life Insurance Company (Oxford), negotiated to have this block of business transferred to Oxford. The company continues to administer this block of business, now under a preexisting agreement with Oxford.

This amendment should have been reported to the Commissioner prior to its effective date, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.. It is recommended that the company properly file all future affiliated agreements, or any amendments thereof, at least 30 days in advance of the effective date, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

The examination also noted that a trust account originally established to provide security for the reserves associated with the assumed business from General Cologne continues to be maintained by the company. With the transfer of this business to Oxford, it is no longer appropriate for the company maintain this account. It is recommended that the company take the steps necessary to obtain its securities and close this account.

Ceded Reinsurance

The current examination noted several reinsurance receivable/payable balances for which the company was unable to provide any support documentation. These balances related to reconciling items that were erroneously carried forward in reconciliations for which the company was no longer able to recall the intent of the entries. Similar inconsistencies were noted in the prior examination report. Due to the lack of support documentation, the examination accepted the payable balances and made an adjustment decreasing the receivable balances by $63,907.00. It is again recommended that the company establish procedures for properly documenting its reinsurance program.

The NAIC Annual Statement Instructions – Life, Accident, and Health, as well as Statements of Statutory Accounting Principles (SSAP), No. 61, paragraph 24, require companies to separately report reinsurance premiums, commissions, expense allowances, and recoverables on claims. The examination noted that the company improperly reported the net balance of these amounts as “other amounts receivable under reinsurance contracts”. It is recommended that, in future annual statements, the company properly report reinsurance balances in accordance with the NAIC Annual Statement Instructions – Life, Accident, and Health and the NAIC Accounting Practices and Procedures Manual. A reclassification for purposes of this examination was not deemed necessary since the net of these balances was not considered material.

Affiliated Transactions

The prior examination noted that the company had several affiliated balances which had not been settled in a timely manner. Several of these balances had been outstanding since the company's acquisition by Oxford in 1997. In response to these findings, the prior examination recommended that the company settle accounts within a reasonable amount of time.

The current examination noted the company continues to have difficulty associated with collections from certain affiliates. An example of these difficulties is demonstrated by an affiliated agreement with Encore Agency, Inc. (Encore Agency) that has been in effect since January 1, 1999. Under the terms of this agreement, NAI provides policy administration services including customer service, premium administration, claims administration, and commission administration. On April 1, 2002, this agreement was amended reducing the fee charged Encore Agency from $25,000 to $5,000 a month. Encore Agency has been unable to generate sufficient funds to pay for this service and has yet to reimburse the company for providing any of these services. It is again recommended that the company settle accounts within a reasonable amount of time.

In a letter dated April 11, 2003, OCI required the company to amend its December 31, 2002, statutory annual statement and nonadmit any affiliated balances greater than 90 days past due from affiliates. As instructed, the company amended its 2002 statutory annual statement and nonadmitted $1,433,933 of previously admitted affiliated balances, the majority of which were due from Encore Agency. The company continued to report current balances related to its policy administration agreement with Encore Agency as an admitted asset, even though it had yet to receive any reimbursement for providing these administration services. It is recommended that the company either find alternative sources for reimbursement or discontinue providing policy administration services to its affiliate, Encore Agency, Inc. The examination made an adjustment decreasing the affiliated receivables balance by $202,015 for current balances owed by Encore Agency since the collection of these balances is doubtful.

In June 2003, the company ceased billing and accruing the fee associated with providing the policy administration services to Encore Agency due to Encore Agency's inability to settle the balances. While in the short-term there is doubt as to Encore Agency's ability to settle these balances, the company should continue to accrue the receivable, as it is entitled to compensation for providing these services. It is recommended that the company continue to charge affiliates fees for providing services for which it is entitled.

During 2003, the company declared an ordinary dividend of $940,000, to its sole stockholder, Encore Financial, Inc. The company applied the entire amount of this dividend to overdue affiliated balances due from both its affiliate Encore Agency, Inc., and its sole stockholder Encore Financial, Inc. It is recommended that the company continue to apply any future dividends declared to past due affiliated balances until all overdue affiliated balances have been collected. For additional information related to orders issued by this office, see the section of this report titled "Subsequent Events".

The current examination also noted deposits intended for one affiliate were occasionally deposited in other affiliates' accounts. Current controls often failed to detect these instances in a timely manner. The amounts incorrectly deposited in the company's accounts were offset by amounts due the company that were inadvertently deposited in other affiliates' accounts. The failure to maintain proper segregation of accounts in which investments or deposits are not held in the company's own name is a violation of s. 610.23, Wis. Stat. It is recommended that the company develop and implement procedures to ensure that deposits are made to the correct affiliate's account to ensure compliance with s. 610.23, Wis. Stat.

The company and Oxford, its intermediate parent, often place reinsurance with the same unaffiliated reinsurers. The informal practice of the companies was to settle both companies' balances on a net basis with each applicable reinsurer. Neither the company nor Oxford were identified as the single entity to transact this business on behalf of the other, as whichever company had the largest balance with the reinsurer initially paid or received funds from the unaffiliated reinsurer.

The examination revealed several instances in which these intercompany reinsurance settlements were not made in a timely manner, including one settlement that did not occur until nine months after the initial settlement with the reinsurer. This settlement was not detected by the company until after inquiry by this examination. Complicating this review was the inconsistent manner in which the company would occasionally settle these reinsurance balances with other affiliated balances. The lack of clearly defined settlement procedures exposes the company to continued delays in settlement and would be considered unfair to the party that experiences the delay in reimbursement.

It is not uncommon for affiliated groups to settle on a net basis with unaffiliated parties; however, affiliated agreements are necessary to identify a single entity to conduct the transaction and establish the terms of settlement among group members. While the company has several affiliated agreements with Oxford, none clearly apply to reinsurance transactions nor establish clear terms for settlements of the residual balances. It is recommended that the company either execute new or amend current agreements, to clearly and accurately disclose the nature and details of the various transactions amongst affiliates and for settlement of any outstanding balances that arise from providing the services, pursuant to s. 611.61, Wis. Stat.

Remittances and Items not Allocated **$120,267**

The prior examination found that the company included in this liability affiliated transactions that should be classified in other annual statement accounts. The current examination noted balances payable to affiliates as well as monthly activity attributable to payments yet to be entered into the general ledger system was inappropriately included within this account. According to the NAIC Accounting Practices and Procedures Manual, this liability should include cash receipts which are unidentified or which cannot be applied to a specific account such as premium payments received with the application for a new policy. It is again recommended that amounts that do not meet the definition of Remittances and Items Not Allocated as stated in the NAIC Accounting Practices and Procedures Manual be classified on appropriate lines in future annual statements. The examination reclassified of $175,976 from this liability to Payable to Parent, Subsidiaries and Affiliates.

Taxes, Licenses, and Fees **$62,915**

This liability represented accruals for premium taxes, guaranty fund assessments, real estate taxes, and various other regulatory fees incurred but unpaid as of December 31,

2002. The company determines its premium tax accrual by applying a fixed rate to the premium written in various jurisdictions across individual lines of business. The company would debit the account (reducing the accrual), as payments were made to various jurisdictions. This methodology failed to recognize that, in many jurisdictions, premium taxes paid on accident and health business, which is a significant portion of its business, is often based on profitability of the underlying business versus the amount of premium written. Due to poorer than expected results, the company's estimate was often greater than its actual obligation. The company compounded this error by not properly clearing the prior years' accrual allowing the account to accumulate each years' excess accrual. The examination decreased this account by $452,000 reflecting this accumulation. It is recommended that the company improve its methodology for estimating its future premium tax obligations, as well as controls over monitoring its obligation to ensure accurate reporting of both premium taxes payable and the actual expense.

Deferred Tax Asset **$520,169**

The asset above includes a decrease of $829,625 made by the examination. In calculating the admissibility of the Deferred Tax Asset, the company failed to calculate the tax effect the amortization it could deduct related to deferred acquisition costs. Accordingly, the examination adjustment reflects the difference caused by this error.

General Expenses Due or Accrued **$308,344**

The examination’s review of settlements made by the company after year-end revealed that several expenses that were incurred at year-end for which accruals had not been established. This included accruals related to payroll, premiums for corporate insurance policies, and other miscellaneous expenses. The examination increased this liability by $122,852 for these under accruals. In addition, the examination increased this account by $115,789 for an erroneous debit to the account that had been carried forward in the reconciliation of this account that the company was unable to substantiate. It is recommended that the company review its methodology for accruing liabilities and implement improvements to ensure liabilities are properly reported in accordance with the NAIC Accounting Practices and Procedures Manual.

Loss Reserves

As noted earlier, independent actuaries were engaged under a contract with OCI to review the adequacy of aggregate life and accident and health reserves, the accuracy of the deferred and uncollected premiums for life insurance, and for analysis of asset adequacy. On the prior examination actuarial testing revealed that several life polices issued in 1997 were calculated using a 4.5% interest rate, but were reported on Exhibit 8 (currently Exhibit 5) under valuation standard 1980 CSO – 5% CRVM Age at Next Birthday. The current examination found that while the 4.5% is the appropriate interest rate, the company continues to report these policies under the improper valuation standard. It is again recommended that the reserves for life policies be calculated and reported under the appropriate valuation standard.

The current examination review also noted that the company included a provision for unpaid loss adjustment expenses for accident and health business in Exhibit 8 reserves. While it is appropriate to accrue a provision for unpaid loss adjustment expense, it should be reported as "General Expenses Due and Accrued". It is recommended that the company report unpaid loss adjustment expenses in accordance with the NAIC Accounting Practices and Procedures Manual.

VIII. CONCLUSION

The company's policyholders' surplus decreased by 26%, from $12,050,214 on December 31, 1999, to $8,948,284 (as determined by this examination) in 2002. The majority of the surplus reductions during the examination period occurred in 2002, as a result of unrealized capital losses, the retirement of the company's surplus note, and adjustments made by this examination.

Overall operating results have fluctuated over the past few years, as the company has reported relatively modest net income in two of the years and a net loss in 2001. Income reported by the company has been supplemented by administrative fees related to servicing of blocks of business for affiliates and third parties. As identified in the section of this report titled "Summary of Current Examination Results", the company has had difficulty collecting a significant portion of these fees due from its affiliate Encore Agency, Inc.

The current examination resulted in a reduction in surplus of $2,044,804, a $175,976 reclassification, and 24 recommendations. Nine of the recommendations were repeated from the prior examination. The inaccuracy of balances noted demonstrates an ineffective internal control environment and insufficient management oversight over the financial reporting function of the company. Many of the recommendations made by this examination were an attempt to address these deficiencies. During 2003, the company hired an internal auditor to review the design and effectiveness of its internal controls.

IX. SUMMARY OF COMMENTS AND RECOMMENDATIONS

1. Page 28 - Management and Control—It is again recommended that the company amend its Articles of Incorporation to reflect the actual registered agent and registered office, and file any such amendment with the commissioner, pursuant to s. 611.29 (4), Wis. Stat.

2. Page 28 - Management and Control—It is recommended that the company comply with its Bylaws or amend them to reflect current membership and/or practices, and file any future amendments of its Bylaws with the commissioner, pursuant to s. 611.12 (4), Wis. Stat.

3. Page 28 - Disaster Recovery—It is again recommended that the company develop and institute a formal Business Continuation/Disaster Recovery Plan for all company facilities.

4. Page 29 - Fidelity Bond—It is recommended that the company obtain fidelity bond coverage in at least the amount suggested by the guidelines of the NAIC.

5. Page 29 - Cash—It is again recommended that the company establish procedures that will ensure that when checks clear the bank they are removed from the system in a reasonable amount of time.

6. Page 29 - Cash— It is again recommended that the company comply with ch. 177, Wis. Stat., regarding the treatment of unclaimed property and file the required unclaimed property reports with the State Treasurer.

7. Page 29 - Cash—It is again recommended that the company establish procedures for following up on stale checks with payees and then either reissue them or transfer the balances into a liability account for reporting to the appropriate state.

8. Page 30 - Cash—It is recommended that in future annual statements, the company exclude from the cash balance suspense items and other items that do not meet the definition of cash.

9. Page 30 - Cash—It is recommended that the company complete a thorough review of all bank reconciliations identifying and taking the necessary steps to clear reconciling items in a timely manner and nonadmit balances for which it is unable to substantiate that a future economic benefit exists.

10. Page 31 - Assumed Reinsurance—It is recommended that the company properly file all future affiliated agreements, or any amendments thereof, at least 30 days in advance of the effective date, in compliance with s. 617.21, Wis. Stat., and s. Ins 40.04 (2), Wis. Adm. Code.

11. Page 31 - Assumed Reinsurance—It is recommended that the company take the steps necessary to obtain its securities and close this account.

12. Page 31 - Ceded Reinsurance— It is again recommended that the company establish procedures for properly documenting its reinsurance program.

13. Page 31 - Ceded Reinsurance—It is recommended that in future annual statements, the company properly report reinsurance balances in accordance with the NAIC Annual Statement Instructions – Life, Accident, and Health and the NAIC Accounting Practices and Procedures Manual.

14. Page 32 - Affiliated Transactions—It is again recommended that the company settle accounts within a reasonable amount of time.

15. Page 32 - Affiliated Transactions—It is recommended that the company either find alternative sources for reimbursement or discontinue providing policy administration services to its affiliate, Encore Agency, Inc.

16. Page 33 - Affiliated Transactions—It is recommended that the company continue to charge affiliates fees for providing services for which it is entitled.

17. Page 33 - Affiliated Transactions—It is recommended that the company continue to apply any future dividends declared to past due affiliated balances until all overdue affiliated balances have been collected.

18. Page 33 - Affiliated Transactions—It is recommended that the company develop and implement procedures to ensure that deposits are made to the correct affiliates account to ensure compliance with s. 610.23, Wis. Stat.

19. Page 34 - Affiliated Transactions—It is recommended that the company either execute new or amend current agreements, to clearly and accurately disclose the nature and details of the various transactions amongst affiliates and for settlement of any outstanding balances that arise from providing the services, pursuant to s. 611.61, Wis. Stat.

20. Page 34 - Remittances and Items Not Allocated—It is again recommended that amounts that do not meet the definition of Remittances and Items Not Allocated as stated in the NAIC Accounting Practices and Procedures Manual be classified on appropriate lines in future annual statements.

21. Page 35 - Taxes, Licenses, and Fees—It is recommended that the company improve its methodology for estimating its future premium tax obligations, as well as controls over monitoring its obligation to ensure accurate reporting of both premium taxes payable and the actual expense.

22. Page 35 - General Expenses Due or Accrued—It is recommended that the company review its methodology for accruing liabilities and implement improvements to ensure liabilities are properly reported in accordance with the NAIC Accounting Practices and Procedures Manual.

23. Page 36 - Loss Reserves—It is again recommended that the reserves for life policies be calculated and reported under the appropriate valuation standard.

24. Page 36 - Loss Reserves—It is recommended that the company report unpaid loss adjustment expenses in accordance with the NAIC Accounting Practices and Procedures Manual.

X. ACKNOWLEDGMENT

The courtesy and cooperation extended during the course of the examination by the officers and employees of the company are acknowledged.

In addition to the undersigned, the following representatives of the Office of the Commissioner of Insurance, State of Wisconsin, participated in the examination:

Name	Title
Cruz Flores	Data Processing Audit Specialist
Sarah Haeft	Insurance Financial Examiner
Sheur Yang	Insurance Financial Examiner

Respectfully submitted,

Tim Vande Hey, AFE
Examiner-in-Charge
Insurance Financial Examiner - Senior

XI. APPENDIX—SUBSEQUENT EVENTS

On February 21, 2003, the company agreed to a stipulation order that requires 30 days advance notice be provided to the Commissioner for the majority of transactions with affiliates and other transactions not in the normal course of business. Any transaction reported in accordance with this order may be disapproved. The company is also required to notify the Commissioner within three business days of any changes of its officers and directors.

On June 20, 2003, AMERCO filed a voluntary petition for relief under Chapter 11 of the United States Bankruptcy Code in the United States Bankruptcy Court, District of Nevada. AMERCO will continue to manage its properties and operate its businesses as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In general, as debtor-in-possession, AMERCO is authorized under Chapter 11 to continue to operate as an ongoing business, but may not engage in transactions outside the ordinary course of business without the prior approval of the Bankruptcy Court. In order to exit Chapter 11 successfully, AMERCO will need to propose and obtain confirmation by the Bankruptcy Court of a plan of reorganization that satisfies the requirements of the Bankruptcy Code.